



## Annual Financial Report 2012



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## CORPORATE DIRECTORY

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<b>DIRECTORS:</b>	Russell Brimage (Chairman) Simon Reeve Weidong Zhang
<b>COMPANY SECRETARY:</b>	Jack Hugh Toby FCA AACS
<b>ABN:</b>	51 000 753 640
<b>REGISTERED OFFICE:</b>	Ground Floor, 15 Rheola St West Perth, Western Australia 6005  Tel: +61 (8) 9213 4300 Fax: +61 (8) 9213 4311
<b>AUDITORS:</b>	<b>Grant Thornton Audit Pty Ltd</b> Level 1, 10 Kings Park Road West Perth WA 6005 AUSTRALIA  Tel: +61 (8) 9480 2000 Fax: +61 (8) 9322 7787
<b>SHARE REGISTRY:</b>	<b>Computershare Investor Services Pty Ltd</b> Level 2, Reserve Bank Building 45 St Georges Terrace Perth, Western Australia 6000  GPO Box D182 Perth, Western Australia 6840  Tel: +61 1300 557 010 Fax: +61 (8) 9323 2033

This annual report covers both Lion Energy Limited as an individual entity and the consolidated entity comprising Lion Energy Limited and its subsidiaries. The Group's presentation currency is Australian Dollars (\$). The functional currency of Lion Energy Limited is Australian Dollars (\$), the functional currency of Lion Nanning Petro-Chemical Limited is Yuan Renminbi and the functional currency of all other controlled entities of Lion Energy Limited is United States Dollars (US\$). A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report. The directors' report is not part of the financial report.

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## DIRECTORS' REPORT

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The directors of Lion Energy Limited A.C.N. 000 753 640 ("Parent Entity" or "Company" or "Lion") present their report including the consolidated financial report of the Company and its controlled entities ("Consolidated Entity") for the year ended 30th June 2012. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

### DIRECTORS

The names of the directors of the Company in office at any time during or since the financial year and up to the date of this financial report are as follows. Directors were in office for the entire period unless otherwise stated.

Russell Brimage  
Weidong Zhang  
Simon Reeve (appointed 22 February 2012)  
Jian Wu (resigned 21 February 2012)

### PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were oil and gas exploration, development and production and investment in the resources industry.

There were no significant changes in the nature of the principal activities during the financial year.

### OPERATING RESULTS

The operating loss for the Consolidated Entity, after income tax amounted to \$2,606,910 (2011: 741,048).

### DIVIDENDS

No dividends have been paid or declared since the start of the financial year by the Company.

The directors have recommended that no dividend be paid by the Company in respect of the year ended 30th June 2012.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS AND REVIEW OF OPERATIONS

The following significant changes in the state of affairs of the Consolidated Entity occurred during the financial year:

On 6 July 2011, the Company announced that it had been served with a proceeding commenced by Tulloch Lodge Limited (In Liquidation) ("Tulloch") demanding payment of an amount of \$1,082,388.35 plus interest alleged to be due under a loan agreement entered into in January 2003. On 7 October 2011, the Company announced that it had agreed with Tulloch to settle this action by payment to Tulloch of \$737,500.

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## DIRECTORS' REPORT

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On 25 November 2011, the Company announced that it had made an offer to six of its shareholders ("Participating Shareholders") to selectively buy-back 61,734,292 ("Selective Buy-Back") ordinary shares in the Company ("Buy-Back Shares") to restructure and recapitalise the Company ("Buy-Back Offer"). The Company sent to the Participating Shareholders and lodged with ASIC an information statement setting out all information known to the Company that is material to the decision of the Participating Shareholders as to whether to accept the Buy-Back Offer including an independent expert's report prepared by Stantons International Pty Ltd (Stantons). Stantons concluded that the Buy-Back Offer is not fair or reasonable to Shareholders not associated with the Participating Shareholders as the value of the consideration proposed to be given to the Participating Shareholders is greater than the value of the Buy Back Shares. Stantons has also concluded that the Buy-Back Offer does not materially prejudice the Company's ability to pay its creditors.

Under the Buy-Back Offer, the Company has offered to the Participating Shareholders as consideration for the Buy-Back Shares:

- a) USD\$200,000;
- b) 100% of the shares in Lion Nanning Petro-Chemical Limited (a wholly owned subsidiary of the Company) (Lion Nanning); and
- c) an assignment of the debt of CNY37,035,353 owed by Lion Nanning to Lion International Investment Limited (another wholly owned subsidiary of the Company) (LII).

Under the Buy-Back Offer, it is proposed that Mr Wu (one of the Participating Shareholders) will assume the liability for USD\$500,000 and CNY2,200,000 in respect of the evaluation of a petrochemical project and a solar project the Company was considering acquiring an interest in (respectively) but subsequently abandoned. The Buy-Back Offer is conditional on the Company obtaining Shareholder approval for the selective buy-back in accordance with the requirements of the Corporations Act 2001 (Cth), completion of a capital raising of AUD\$1,000,000 (by way of a placement, rights issue or otherwise) and the Board determining that completion of the selective buy-back will not materially prejudice the interests of the Company's creditors. The Buy-Back Offer was accepted and an agreement ("Buy-Back Agreement") was executed on 1 December 2011.

On 1 December 2011, the Company issued 14,174,063 fully paid ordinary shares for \$0.02 per share. The issue of these shares was ratified at the General Meeting of shareholders of the Company held on 17 February 2012. These shares were issued on the basis that subscribers would receive, subject to shareholder approval, one free attaching option for each share issued. These options are exercisable at 3 cents each on or before 31 December 2013.

On 6 December 2011, the Company announced that the Seram (Non Bula) Block Renewal Production Sharing Contract joint venture expected to spud exploration well LOFIN-1 early in January 2012. The LOFIN-1 prospect is a thrust fold four-way dip closure anticline, located approximately 56 km to the west of the Oseil producing oil field, which has produced in excess of 10 million barrels of oil since production commenced in late 2002. A gas kick from a shallow water well and oil seepage provide evidence that there is a mature source rock underneath the Lofin area. The primary objective in the LOFIN-1 well is the likely fractured Jurassic carbonate of the Manusela Formation, essentially the same producing reservoir rocks in the Oseil oil field.

On 8 December 2011, the Company announced a non-renounceable offer to eligible shareholders pursuant to a prospectus dated 8 December 2011, on the basis of one (1) new share (New Shares) for every two (2) shares held by shareholders at an issue price of \$0.02 per Share to raise approximately \$1,086,678 before costs, together with one (1) free attaching option (Attaching Option) for every New Share issued (Rights Issue). The Attaching Options are exercisable at 3 cents each on or before 31 December 2013.



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## DIRECTORS' REPORT

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Pursuant to the Rights Issue, the Company issued 5,931,616 New Shares and 5,931,616 Attaching Options on 19 January 2012, 35,902,293 New Shares and 35,902,293 Attaching Options on 3 February 2012 and 12,500,000 New Shares and 12,500,000 Attaching Options on 14 February 2012.

On 18 January 2012, the Company announced that the LOFIN-1 exploration well on Seram Island in Eastern Indonesia was spudded at 14:00 hours WIT January 17th 2012.

On 17 February 2012, the Company's shareholders approved the selective Buy-Back of the Company's shares in accordance with the Buy-Back Agreement.

On 27 February 2012, the Company announced the completion of the Selective Buy-Back. Consequently, 61,734,292 ordinary shares were cancelled on 27 February 2012. The share buyback has also resulted in reducing the cash balance of the Group by CNY38,678,581 by means of the disposal of 100% of the shares in Lion Nanning Petro-Chemical Limited (a wholly owned subsidiary of the Company) (Lion Nanning) and the assignment of the debt of CNY37,035,353 owed by Lion Nanning to LII. In addition, the share buyback has resulted in a payment by the Group to the Participating Shareholders of US\$200,000 and a reduction in the liabilities of the Group by USD\$500,000 and CNY2,200,000.

On 27 February 2012, the Company issued 5,875 fully paid ordinary shares for \$0.03 each pursuant to the exercise of options expiring on 31 December 2013.

On 13 March 2012, the Company issued 4,000,000 free options exercisable at 3 cents each on or before 31 December 2013 to nominees of the underwriter of the Rights Issue as part of the underwriting fee. The issue of these options was approved at the General Meeting of shareholders of the Company held on 17 February 2012.

On 15 March 2012, the Company issued 12,750,000 fully paid ordinary shares for \$0.02 each and 20,000,000 options exercisable at 3 cents each on or before 31 December 2013 at an issue price of \$0.001 each. The issue of these shares and options was approved at the General Meeting of shareholders of the Company held on 17 February 2012.

On 16 April 2012, the Company issued 14,174,063 free options exercisable at 3 cents each on or before 31 December 2013. These options were issued as free attaching options for an issue of 14,174,063 ordinary shares issued on 1 December 2011 for 2 cents per share. The issue of these options was approved at the General Meeting of shareholders of the Company held on 17 February 2012.

On 24 May 2012, the Company announced that LOFIN-1 had reached a total depth of 4,093.9 metres (13,432 feet) MD. The well then took a significant high pressure "kick" at this depth. Significant efforts had been expended to control the well. The entire open-hole section below the casing shoe at 11,460 feet to Total Depth at 13,432 feet had thoroughly packed off, with the bit and drill string below 11,460 feet stuck in place. The Operator would sidetrack the well to continue drilling to the primary objective.

On 18 June 2012, the Company announced that it had executed an agreement with KRX Energy Pte Ltd ("KRX"), paving the way for the Company to provide ongoing funding for KRX as it moves forward with acquisition and development of oil and gas interests in SE Asia. The Company committed to initial firm funding of A\$1 million by way of subscriptions for shares at \$0.05 per share to be provided progressively as needed, which on completion will give Lion a 30.77% interest in KRX. Thereafter Lion has the right over 36 months to fund ongoing activities as it deems appropriate. KRX has no other significant assets or liabilities and currently has 45 million shares on issue.

On 25 June 2012, the Company announced that the LOFIN-1 exploration well on Seram Island in eastern Indonesia has been successfully sidetracked. A revised prognosis indicates the primary Manusela Formation top to be at 4,168.5 metres (13,677 feet) measured depth (from rig rotary table).

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## DIRECTORS' REPORT

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On 26 June 2012, the Company announced that it had paid the first instalment of A\$420,000 of the initial firm funding of A\$1 million by way of subscriptions for 8,400,000 shares in KRX at \$0.05 per share. The Company had thus acquired a 15.73% shareholder position in KRX through this first instalment.

On 28 June 2012, the Company announced that KRX had executed a Farm-in Agreement with PT Prosys Oil & Gas International ("POGI") for the SOUTH BLOCK "A" Production Sharing Contract in Indonesia and acquired a 35% non-operating participating interest for certain funding commitments in the forward work program approved by the SOUTH BLOCK "A" joint venture. KRX will pay 49% of the gross cash calls of US\$8,000,000 made by the Operator for the current and future work program, comprising 35% for KRX's contribution and 14% for POGI's contribution up to a maximum of US\$3,920,000 after which expenditure by parties will be on an equity share basis. KRX's title to the 35% participating interest is delivered free and clear of all loans, liens, mortgages and any other encumbrances, and specifically clear of any requirement to pay or reimburse POGI for any already paid signature bonus, or a part thereof.

### SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

On 2 July 2012, the Company announced that KRX had executed an Area of Mutual Interest Agreement (AMI Agreement) with two prominent Indonesian groups to jointly evaluate the onshore areas of Java, Kalimantan and Sumatra for the purposes of forming a consortium to ultimately acquire prospective acreage. KRX had a 35% Participating Interest in the AMI Agreement which participating interest will apply to any application except that it may be adjusted by mutual agreement between the parties.

On 16 August 2012, the Company announced that the LOFIN-1 exploration well on Seram Island in eastern Indonesia had been successfully sidetracked and the LOFIN-1 ST wellbore has reached a depth of 4,168 meters (13,676 feet) measured depth (from rig rotary table). The Company also announced that it had recovered US\$180,000 owed to the Company via a Loan Agreement entered into between an Indonesian company and Lion Energy Limited in May 2005 by the previous Lion board and management. The amount loaned pursuant to this agreement was US\$299,028 which had been completely written off in Lion's accounts some years ago.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial years.

### LIKELY DEVELOPMENTS

The directors intend to actively pursue the exploration and development of the oil and gas leases in which it has an interest.

### ENVIRONMENTAL ISSUES

The Company's operations have not been subject to any environmental regulation.

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## DIRECTORS' REPORT

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### INFORMATION ON DIRECTORS AND COMPANY SECRETARY

#### **RUSSELL ERNEST BRIMAGE**

CHAIRMAN (EXECUTIVE)

*Qualifications and Experience:*

Russell Brimage has in excess of 31 years experience in the upstream oil and gas industry. He was a founding Director of Oilserv Australia Limited, a company providing drilling, well testing and production services. Prior to joining Lion Energy Limited he was Chief Executive of Western Resources NL and General Manager of a Western Australian gas field operator.

*Directorships of other listed companies in the 3 years prior to the end of the Financial Year:*

Director of Entek Energy Limited from 10-Aug-2005 to 25-Nov-2010.

*Special Responsibilities:*

Executive Director and Chief Executive Officer from 20 October 2011. Chairman of Directors from 22 February 2012.

*Interest in shares and options of the Company:*

22,554,400 Ordinary Shares and 22,500,000 options expiring 31 December 2013 exercisable at 3 cents each in Lion Energy Limited.

*Directors meetings attended: 15.*

#### **WEIDONG ZHANG**

DIRECTOR (NON-EXECUTIVE)

*Qualifications and Experience:*

Mr Zhang obtained his PhD degree in chemical engineering from the University of Auckland in 1992. He worked for Comalco Limited, a wholly owned subsidiary of Rio Tinto Limited, for 5 years involved in process development and aluminium smelting operations. Mr Zhang has had considerable commercial experience, joining Sino Mining International Limited in Sydney in 1997 working in the corporate finance area and later in the business development international resources industry. Since 2001, Mr Zhang has been involved in general management of an alumina subsidiary of Sino Mining International Limited, Sino Mining Alumina Limited.

Mr Zhang is also a director of other three Australian resources-related companies and is a member of TMS and APESMA.

*Directorships of other listed companies in the 3 years prior to the end of the Financial Year:*

None.

*Interest in shares and options of the Company: Nil.*

*Directors meetings attended: 15.*

#### **SIMON REEVE**

DIRECTOR (NON-EXECUTIVE)

*Qualifications and Experience:*

Mr Reeve has extensive experienced US Fortune 500 Oil & Gas Services executive with 28 years at Board level, including company leadership with P&L responsibility up to US\$550m. Significant C-level experience in the fields of energy, engineering and high technology.

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## DIRECTORS' REPORT

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His experience includes 10 years in City finance including consulting Director roles at Dresdner Kleinwort Benson and Director of Ventures at CitiGroup-led Antfactory, London. Leadership of successful Funding, IPO, Turnaround and Trade Sale initiatives.

He is a graduate geologist (UOL 1978) and qualified petroleum engineer with E&P field experience gained in Texas, Malaysia, Brunei, Indonesia, Australia and New Zealand. Specialising in optimising production from existing fields, consulting to the likes of Shell, Chevron-Texaco, Exxon-Mobil and the national oil companies of Indonesia and China.

He is currently active in the origination and funding of major energy projects in south-eastern Europe, Caucasus and Asia, maintaining key relationships with significant energy-related EPCs and Financial institutions world-wide

*Directorships of other listed companies in the 3 years prior to the end of the Financial Year:*

None.

*Interest in shares and options of the Company: Nil*

*Directors meetings attended during the financial year:*

Attended 4 of the 6 meetings held during the financial year while he was a director.

### **JACK TOBY**

COMPANY SECRETARY

#### *Qualifications*

Mr Toby is a Fellow of the Institute of Chartered Accountants in Australia, a Fellow of the Institute of Chartered Accountants in England and Wales and an Associate member of the Australian Computer Society.

#### *Experience*

Mr Toby has extensive experience as Company Secretary and Chief Financial Officer of several listed public companies and major corporations over the last 28 years.

## **DIRECTORS MEETINGS**

During the year ended 30th June 2012, 15 meetings of directors were held.

Mr Jian Wu, who resigned as a director during the financial year attended 7 of the 8 meetings held during the financial year while he was a director.

## **REMUNERATION REPORT (AUDITED)**

Remuneration is based on fees approved by the Board of directors.

There is no relationship between the performance or the impact on shareholder wealth of the Company for the current financial year or the previous four financial years and either the remuneration of directors and executives or the issue of shares and options to directors. Remuneration is set at levels to reflect market conditions and encourage the continued services of directors and executives. There are no contracts with directors.

The names and positions of key management personnel of the Company and of the Consolidated Entity who have held office during the financial year are:

Remuneration for Mr Russell Brimage has been set at \$200,000 per year.

Remuneration for Mr Weidong Zhang has been set at \$52,000 per year.





## DIRECTORS' REPORT

Remuneration for Mr Simon Reeve has been set at \$36,000 per year.

### DIRECTORS

Russell Brimage	Executive Chairman
Weidong Zhang	Non-Executive Director
Simon Reeve	Non-Executive Director (appointed 22 February 2012)
Jian Wu	Executive Chairman (resigned 21 February 2012)

### EXECUTIVES

Jack Toby	Company Secretary and Chief Financial Officer
Scott Wentz	Director of Lion Energy Limited USA, Inc.

	Primary Compensation 2012		
	Short Term Benefits \$	Super- annuation \$	Total \$
COMPENSATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.			
Russell Brimage	163,000	—	163,000
Weidong Zhang	52,000	—	52,000
Simon Reeve	15,000	—	15,000
Jian Wu	98,253	—	98,253
<b>TOTAL PRIMARY COMPENSATION FOR SPECIFIED DIRECTORS</b>	<b>328,253</b>	<b>—</b>	<b>328,253</b>
COMPENSATION OF EXECUTIVES BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.			
Jack Toby	120,000	—	120,000
<b>TOTAL PRIMARY COMPENSATION FOR SPECIFIED EXECUTIVES</b>	<b>120,000</b>	<b>—</b>	<b>120,000</b>

The Company did not provide any equity compensation to directors or executives during the year ended 30 June 2012.

	Primary Compensation 2011		
	Short Term Benefits \$	Super- annuation \$	Total \$
COMPENSATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.			
Jian Wu	200,100	—	200,100
Russell Brimage	52,000	—	52,000
Weidong Zhang	52,000	—	52,000
<b>TOTAL PRIMARY COMPENSATION FOR SPECIFIED DIRECTORS</b>	<b>304,100</b>	<b>—</b>	<b>304,100</b>
COMPENSATION OF EXECUTIVES BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.			
Jack Toby	120,000	—	120,000
Scott Wentz	4,317	—	4,317
<b>TOTAL PRIMARY COMPENSATION FOR SPECIFIED EXECUTIVES</b>	<b>124,317</b>	<b>—</b>	<b>124,317</b>

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## DIRECTORS' REPORT

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The Company did not provide any equity compensation to directors or executives during the year ended 30 June 2011.

End of Audited Section

### SHARE OPTIONS ISSUED

On 8 December 2011, the Company announced a non-renounceable offer to eligible shareholders pursuant to a prospectus dated 8 December 2011, on the basis of one (1) new share (New Shares) for every two (2) shares held by shareholders at an issue price of \$0.02 per Share to raise approximately \$1,086,678 before costs, together with one (1) free attaching option (Attaching Option) for every New Share issued (Rights Issue). The Attaching Options are exercisable at 3 cents each on or before 31 December 2013. Pursuant to the Rights Issue, the Company issued 5,931,616 New Shares and 5,931,616 Attaching Options on 19 January 2012, 35,902,293 New Shares and 35,902,293 Attaching Options on 3 February 2012 and 12,500,000 New Shares and 12,500,000 Attaching Options on 14 February 2012.

On 13 March 2012, the Company issued 4,000,000 free options exercisable at 3 cents each on or before 31 December 2013 to nominees of the underwriter of the Rights Issue as part of the underwriting fee. The issue of these options was approved at the General Meeting of shareholders of the Company held on 17 February 2012. These options were valued on the date of issue at 0.0213269562900683 cents each using the Cox, Ross, & Rubinstein Binomial methodology and based on a risk free rate 5.00%, an underlying security spot price \$0.038 and an average of calculations using volatility factors of 93.1%, 93.1%, 100% and 93% (each derived from different methodologies for calculating the volatility factor based on share price history).

On 15 March 2012, the Company issued 12,750,000 fully paid ordinary shares for \$0.02 each and 20,000,000 options exercisable at 3 cents each on or before 31 December 2013 at an issue price of \$0.001 each. The issue of these shares and options was approved at the General Meeting of shareholders of the Company held on 17 February 2012.

On 16 April 2012, the Company issued 14,174,063 free options exercisable at 3 cents each on or before 31 December 2013. These options were issued as free attaching options for an issue of 14,174,063 ordinary shares issued on 1 December 2011 for 2 cents per share. The issue of these options was approved at the General Meeting of shareholders of the Company held on 17 February 2012.

No options were issued subsequent to the year ended 30th June 2012.

### SHARE OPTIONS EXPIRED

During the year ended 30th June 2012, 31,000,000 options to subscribe for unissued fully paid ordinary shares in the Company for 35 cents per share expired unexercised on 31 August 2011.

### SHARE OPTIONS OUTSTANDING

During the year ended 30th June 2012, 5,875 ordinary shares were issued by virtue of the exercise of options exercisable at \$0.03 on or before 31 December 2013.

Subsequent to the year ended 30th June 2012, no ordinary shares were issued by virtue of the exercise of options.

There were 92,502,097 options to subscribe for unissued fully paid ordinary shares in the Company for 3 cents each and expiring on 31 December 2013 outstanding as at 30 June 2012.

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## **DIRECTORS' REPORT**

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No person entitled to exercise any options, had or has any right by virtue of any option to participate in any share issue of any other body corporate.

### **INDEMNIFYING AND INSURING DIRECTORS, OFFICERS OR AUDITORS**

During the financial year, the Company paid premiums for Directors and Officers liability insurance of \$11,300. Except as disclosed above, the Company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate:

- a) indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or
- b) paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

### **PROCEEDINGS ON BEHALF OF COMPANY**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

### **AUDITOR'S INDEPENDENCE DECLARATION**

In accordance with the Corporations Act 2001 section 307C the auditors of the Company have provided a signed Auditor's Independence Declaration to the directors in relation to the year ended 30 June 2012. This declaration has been included in this document.

The following non-audit services were provided to the Company by the Company's auditors. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Grant Thornton Australia Limited received or is due to receive \$7,400 for the provision of tax compliance services.

Signed in accordance with a resolution of the directors.



Russell Brimage  
Director  
17 September 2012  
Perth, Western Australia

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## **DIRECTORS' DECLARATION**

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In accordance with a resolution of the directors of Lion Energy Limited A.C.N. 000 753 640 ("Company"), I state that:

In the opinion of the directors:

- 1) the financial statements and notes of the Company and its controlled entities ("Consolidated Entity") are in accordance with the Corporations Act 2001 including:
  - a) complying with International Financial Reporting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - b) giving a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the Consolidated Entity;
  - c) the remuneration report disclosures set out on pages 6 to 8 of the directors' report (as part of the Remuneration Report), for the year ended 30 June 2012, comply with section 300A of the Corporations Act 2001.
- 2) the Chief Executive Officer and Chief Finance Officer have each declared that:
  - a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - b) the financial statements and notes for the financial year comply with the International Financial Reporting Standards; and
  - c) the financial statements and notes for the financial year give a true and fair view;
- 3) in the director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board of Directors.



Russell Brimage  
Director

17 September 2012  
Perth, Western Australia

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2012

		<b>Consolidated Entity</b>	
	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$</b>	<b>\$</b>
Sales Revenue	3	2,014,232	1,791,239
Cost of sales		(792,107)	(903,288)
<b>GROSS PROFIT</b>		<b>1,222,125</b>	<b>887,951</b>
Other revenue	3	41,880	149,351
Other income	3	—	286,687
Administration expenses	3	(3,870,915)	(2,065,037)
<b>PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE</b>		<b>(2,606,910)</b>	<b>(741,048)</b>
Income tax expense	4	—	—
<b>PROFIT/(LOSS) AFTER RELATED INCOME TAX EXPENSE</b>		<b>(2,606,910)</b>	<b>(741,048)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Exchange differences on translating foreign operations		351,597	(1,793,495)
Income tax relating to components of other comprehensive income		—	—
<b>OTHER COMPREHENSIVE INCOME AFTER INCOME TAX</b>		<b>351,597</b>	<b>(1,793,495)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>		<b>(2,255,313)</b>	<b>(2,534,543)</b>
<b>BASIC EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)</b>	5	<b>(2.43)</b>	<b>(0.78)</b>

The accompanying notes form part of these financial statements

## STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2012

	Note	Consolidated Entity 2012 \$	2011 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		1,274,699	6,596,925
Trade and other receivables	6	97,473	1,180,380
Inventories	7	403,936	351,587
<b>TOTAL CURRENT ASSETS</b>		1,776,108	8,128,892
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	8	35,092	45,590
Capitalised exploration expenditure	9	882,708	1,533,035
Other financial assets	10	420,000	—
<b>TOTAL NON-CURRENT ASSETS</b>		1,337,800	1,578,625
<b>TOTAL ASSETS</b>		3,113,908	9,707,517
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	485,107	1,374,956
<b>TOTAL CURRENT LIABILITIES</b>		485,107	1,374,956
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	12	595,332	483,566
<b>TOTAL NON-CURRENT LIABILITIES</b>		595,332	483,566
<b>TOTAL LIABILITIES</b>		1,080,439	1,858,522
<b>NET ASSETS</b>		2,033,469	7,848,995
<b>EQUITY</b>			
Issued capital	13	49,575,567	51,691,088
Reserves	14	(1,014,405)	78,690
Accumulated losses		(46,527,693)	(43,920,783)
<b>TOTAL EQUITY</b>		2,033,469	7,848,995

The accompanying notes form part of these financial statements

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2012

		<b>Consolidated Entity</b>	
	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		2,857,861	947,610
Payments to suppliers & employees		(1,179,461)	(964,291)
Interest received		41,880	108,050
Settlement of Tulloch claim		(737,500)	—
Other income		—	41,301
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>16</b>	<b>982,780</b>	<b>132,670</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Exploration expenditure		(671,368)	(447,001)
Production and development expenditure		(1,060,421)	(1,218,171)
Purchase of plant and equipment		(3,623)	—
Purchase of investments		(420,000)	—
Sale of investments		—	194,143
Loans repaid by unrelated entities		—	6,436,617
<b>NET CASH FROM INVESTING ACTIVITIES</b>		<b>(2,155,412)</b>	<b>4,965,588</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from equity issues		1,645,335	—
Capital raising expenses		(82,210)	—
Share Buy-back		(5,929,596)	—
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>		<b>(4,366,471)</b>	<b>—</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(5,539,103)</b>	<b>5,098,258</b>
Net foreign exchange differences		216,877	(985,548)
Cash and cash equivalents at beginning of year		6,596,925	2,484,215
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>16</b>	<b>1,274,699</b>	<b>6,596,925</b>

The accompanying notes form part of these financial statements



## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2012

### CONSOLIDATED ENTITY

ATTRIBUTABLE TO MEMBERS OF THE COMPANY	Issued Capital \$	Option Premium Reserve \$	Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
<b>At 1 JULY 2010</b>	51,691,088	1,550,000	322,185	(43,179,735)	10,383,538
Currency translation differences	—	—	(1,793,495)	—	(1,793,495)
Profit/(Loss) for period	—	—	—	(741,048)	(741,048)
<b>TOTAL PROFIT FOR THE PERIOD</b>	—	—	(1,793,495)	(741,048)	(2,534,543)
<b>At 30 JUNE 2011</b>	51,691,088	1,550,000	(1,471,310)	(43,920,783)	7,848,995
Currency translation differences	—	—	351,597	—	351,597
Profit/(Loss) for period	—	—	—	(2,606,910)	(2,606,910)
<b>TOTAL PROFIT FOR THE PERIOD</b>	—	—	351,597	(2,606,910)	(2,255,313)
Option premium for expired options transferred to Issued Capital	1,550,000	(1,550,000)	—	—	—
Securities issued	1,625,335	105,308	—	—	1,730,643
Share Buy-Back	(5,123,338)	—	—	—	(5,123,338)
Equity raising costs	(167,518)	—	—	—	(167,518)
<b>At 30 JUNE 2012</b>	49,575,567	105,308	(1,119,713)	(46,527,693)	2,033,469

The accompanying notes form part of these financial statements



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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

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### NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies adopted by Lion Energy Limited A.C.N. 000 753 640 ("Parent Entity" or "Company") and by the Parent Entity and its controlled entities ("Consolidated Entity") in the preparation of these financial statements.

#### Basis of Preparation of Accounts

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) and the Corporations Act 2001. The consolidated financial report of the Group also complies with the International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board.

The financial report has been prepared on an accruals basis and is based on a historical cost basis, except for any available-for-sale financial assets that have been measured at fair value. The presentation currency used in this financial report is Australian Dollars.

This financial report is issued in accordance with a resolution of the directors of the Company on the same date as the Directors' Declaration above.

#### Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any material changes to the Group's accounting policies.

At the date of authorisation of the financial report, the following Standards and Interpretations were issued but not yet effective:

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard is not expected to impact on the Group's accounting for financial assets as it does not have any available for sale assets. There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The Group has decided not to early adopt AASB 9.

Other Standards that have been issued but not yet effective are considered to have no significant effect on the financial statements.

#### Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies adopted by Lion Energy Limited A.C.N. 000 753 640 ("Company") in the preparation of these financial statements. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

##### a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at and for the period ended 30 June each year (the Group). Interests in associates are equity accounted and are not part of the consolidated Group. Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

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The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised. The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition. A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction. Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary; derecognises the carrying amount of any non-controlling interest; derecognises the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received; recognises the fair value of any investment retained; recognises any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

b) Foreign currency translation

The presentation currency of the Company and its Australian subsidiaries is Australian dollars. The functional currency of the Company is Australian dollars. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The functional currency of overseas subsidiaries is United States dollars. As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of the Company at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

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c) Taxes

Income Tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences:

except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

d) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Employee benefits, expenses and revenues arising in respect of wages and salaries; non monetary benefits; annual leave; long service leave and other leave and other employee entitlements are charged against profits on a net basis.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred. The Group has no legal obligation to cover any shortfall in any superannuation fund's obligation to provide benefits to employees on retirement.

e) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with a maturity of three months or less. For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts and investments in money market instruments with less than 14 days to maturity.

f) Revenue recognition

Revenue from goods and services rendered is recognised upon the delivery of goods or services to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

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g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except: where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from the investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

h) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease). An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

i) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

j) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

k) Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land and buildings are measured at fair value less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings – over 20 years  
 Plant and equipment – over 2 to 15 years

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012**

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**Impairment**

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

**l) Trade and other receivables**

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

**m) Trade and other payables**

Trade payables and other payables are carried at amortised cost which represents future liabilities for goods and services received, whether or not billed to the Company.

**n) Investments****Investments and other financial assets**

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

**Available-for-sale investments**

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

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### Impairment of financial assets

#### Impairment of available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

### Derecognition of financial assets and financial liabilities

#### Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when: the rights to receive cash flows from the asset have expired; the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay. When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

o) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of mineral stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

p) Significant accounting judgements, estimates and assumptions

#### Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### Exploration and evaluation assets

The Group's accounting policy for exploration and evaluation expenditure is set out below. The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves are found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, we conclude that we are unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

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### Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

#### Key Estimates - Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Company as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

#### Recovery of deferred assets

Deferred tax assets are recognised for deductible temporary differences when management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

#### Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, using the assumptions detailed below. The Group measures the cost of cash-settled share-based payments at fair value at the grant date using a binomial formula taking into account the terms and conditions upon which the instruments were granted.

#### q) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis. Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.



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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012**

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r) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'). There is currently a Employee Share Option Plan (ESOP) in place to provide these benefits, which provides benefits to directors and executives. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

s) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element. Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for: costs of servicing equity (other than dividends) and preference share dividends; the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

t) Interests in Joint Ventures

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements. The economic entity's interests in joint venture entities are brought to account using the proportionate method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

## **NOTE 2. GOING CONCERN BASIS**

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business. The Consolidated Entity incurred a net loss of \$2,606,910, received a net operating cash inflow of \$982,780 and expended a net investing cash outflow of \$2,155,412 during the financial year ended 30 June 2012.

The Consolidated Entity is currently in a positive net current asset position. The Directors are confident that the Group, subject to capital raising or obtaining further funding will continue as a going concern and will be able to meet existing commitments as they fall due. The Directors will also carefully manage discretionary expenditure in line with the Group's cash flow. The Company raised \$1,645,335 from capital raisings (before costs) during the year ended 30 June 2012.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

Should a capital raising or other funding not be obtained then there is significant uncertainty whether the Group will continue as a going concern and whether it will realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

**Consolidated Entity**  
**2012**                      **2011**  
**\$**                              **\$**

### NOTE 3. REVENUE AND EXPENSES

*The profit/(loss) before income tax expense includes the following revenues and expenses where disclosure is relevant in explaining the performance of the Group:*

#### REVENUE

Oil sales	2,014,232	1,791,239
Interest receivable from other persons	41,880	108,050
Rental income	—	41,179
Other revenue	—	122
	<u>2,056,112</u>	<u>1,940,590</u>

#### OTHER INCOME

Foreign exchange gain/(loss)	—	286,687
	<u>—</u>	<u>286,687</u>

#### CHARGING AS EXPENSES

Depreciation	6,096	13,358
Remuneration expenses	496,210	507,575
Travel	66,747	19,845
Rental expenses	33,776	95,367
Other administration expenses	588,059	209,094
Write down of joint venture interest	1,736,281	1,098,650
Indonesian First Tranche Petroleum royalty	84,348	72,553
Foreign exchange gain/(loss)	113,857	—
Settlement of Tulloch claim	737,500	—
Loss on disposal of plant and equipment	—	48,595
Other	8,041	—
	<u>3,870,915</u>	<u>2,065,037</u>

### NOTE 4. INCOME TAX

A reconciliation between the tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

<b>PROFIT/(LOSS) FROM ORDINARY ACTIVITIES</b>	<b>(2,606,910)</b>	<b>(741,048)</b>
Prima facie income tax expense/(benefit) on operating loss calculated at 30%	(782,073)	(222,314)
Non-deductible expenses	131,562	16,764
Attribution of income	65,626	7,434
Difference of effective foreign income tax rates	(152,384)	(87,670)
Income tax benefit not brought to account as realisation of the benefit is not virtually certain	737,269	285,786
<b>INCOME TAX EXPENSE FROM ORDINARY ACTIVITIES</b>	<b>—</b>	<b>—</b>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012**


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	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>UNRECOGNISED DEFERRED TAX BALANCES</b>		
Unrecognised deferred tax asset – temporary differences	38,371	5,550
Unrecognised deferred tax asset – revenue losses	6,310,395	6,016,133
Unrecognised deferred tax asset – capital losses	564,321	343,071
<b>DEFERRED TAX ASSET NOT BROUGHT TO ACCOUNT</b>	<b>6,913,087</b>	<b>6,364,754</b>
<hr/>		
<b>NOTE 5. EARNINGS PER SHARE</b>		
Basic profit/(loss) per share (cents per share)	(2.43)	(0.78)
Profit/(Loss) used in the calculation of basic EPS	(2,606,910)	(741,048)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	107,409,738	94,493,754
<b>NOTE 6. TRADE AND OTHER RECEIVABLES</b>		
Trade debtors	—	843,629
Other debtors and prepayments	97,473	336,751
	<b>97,473</b>	<b>1,180,380</b>
<hr/>		
<b>NOTE 7. INVENTORIES</b>		
Oil stock	118,493	68,513
Joint venture materials	285,443	283,074
	<b>403,936</b>	<b>351,587</b>
<hr/>		
<b>NOTE 8. PLANT AND EQUIPMENT</b>		
<b>PLANT AND EQUIPMENT</b>		
At cost	225,283	204,461
Accumulated depreciation	(190,191)	(158,871)
<b>TOTAL PLANT AND EQUIPMENT</b>	<b>35,092</b>	<b>45,590</b>
<hr/>		
<b>MOVEMENTS IN THE CARRYING AMOUNT OF PLANT AND EQUIPMENT</b>		
<b>PLANT AND EQUIPMENT</b>		
At the beginning of the financial year	45,590	115,971
Additions	3,623	—
Disposals	—	(48,595)
Depreciation expense	(6,096)	(13,358)
Currency exchange adjustment	(8,025)	(8,428)
<b>TOTAL PLANT AND EQUIPMENT</b>	<b>35,092</b>	<b>45,590</b>
<hr/>		
<b>NOTE 9. CAPITALISED EXPLORATION EXPENDITURE</b>		
Joint venture exploration expenditure capitalised	882,708	1,533,035
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>MOVEMENTS IN THE CARRYING AMOUNT OF CAPITALISED EXPLORATION EXPENDITURE</b>		
At the beginning of the financial year	1,533,035	
Expenditure during the year	1,015,610	
Amounts written off	(1,736,281)	
Currency exchange adjustment	70,344	
<b>AT THE END OF THE FINANCIAL YEAR</b>	<b>882,708</b>	
Recoverability of the carrying amount of the capitalised oil and gas expenditure is dependent on the successful development and commercial exploitation or sale of the respective areas of interest.		
<b>NOTE 10. OTHER FINANCIAL ASSETS (NON CURRENT)</b>		
Investment in unlisted entities	420,000	—
<b>AT THE END OF THE FINANCIAL YEAR</b>	<b>420,000</b>	<b>—</b>
<b>MOVEMENTS IN THE CARRYING AMOUNT OF INVESTMENT IN UNLISTED ENTITIES</b>		
At the beginning of the financial year	—	
Expenditure during the year	420,000	
<b>AT THE END OF THE FINANCIAL YEAR</b>	<b>420,000</b>	
<b>NOTE 11. TRADE AND OTHER PAYABLES (CURRENT)</b>		
Sundry creditors and accrued expenses	485,107	1,374,956
<b>AT THE END OF THE FINANCIAL YEAR</b>	<b>485,107</b>	<b>1,374,956</b>
<b>NOTE 12. TRADE AND OTHER PAYABLES (NON-CURRENT)</b>		
Sundry creditors and accrued expenses	595,332	483,566
<b>AT THE END OF THE FINANCIAL YEAR</b>	<b>595,332</b>	<b>483,566</b>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012**


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	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 13. ISSUED CAPITAL</b>		
114,023,309 (2011: 94,493,754) fully paid ordinary shares	49,575,567	51,691,088
	<u>49,575,567</u>	<u>51,691,088</u>

**MOVEMENTS IN ISSUED CAPITAL**

At the beginning of the period	51,691,088
Option premium for expired options transferred to Issued Capital	1,550,000
14,174,063 shares issued on 1 December 2011	283,481
5,931,616 shares issued on 19 January 2012	118,632
35,902,293 shares issued on 3 February 2012	718,046
12,500,000 shares issued on 14 February 2012	250,000
61,734,292 shares cancelled on 27 February 2012 pursuant to share buy-back	(5,123,338)
5,875 shares issued on 27 February 2012	176
12,750,000 shares issued on 15 March 2012	255,000
Share issue expenses	<u>(167,518)</u>
<b>AT THE END OF THE FINANCIAL YEAR</b>	<u><b>49,575,567</b></u>

On 1 December 2011, the Company issued 14,174,063 fully paid ordinary shares for \$0.02 per share. The issue of these shares was ratified at the General Meeting of shareholders of the Company held on 17 February 2012. These shares were issued on the basis that subscribers would receive, subject to shareholder approval, one free attaching option for each share issued. These options are exercisable at 3 cents each on or before 31 December 2013.

On 8 December 2011, the Company announced a non-renounceable offer to eligible shareholders pursuant to a prospectus dated 8 December 2011, on the basis of one (1) new share (New Shares) for every two (2) shares held by shareholders at an issue price of \$0.02 per Share to raise approximately \$1,086,678 before costs, together with one (1) free attaching option (Attaching Option) for every New Share issued (Rights Issue). The Attaching Options are exercisable at 3 cents each on or before 31 December 2013. Pursuant to the Rights Issue, the Company issued 5,931,616 New Shares and 5,931,616 Attaching Options on 19 January 2012, 35,902,293 New Shares and 35,902,293 Attaching Options on 3 February 2012 and 12,500,000 New Shares and 12,500,000 Attaching Options on 14 February 2012.

On 27 February 2012, the Company completed a Selective Buy-Back. Consequently, 61,734,292 ordinary shares were cancelled on 27 February 2012. The share buyback has also resulted in reducing the cash balance of the Group by CNY38,678,581 by means of the disposal of 100% of the shares in Lion Nanning Petro-Chemical Limited (a wholly owned subsidiary of the Company) (Lion Nanning) and the assignment of the debt of CNY37,035,353 owed by Lion Nanning to LII. In addition, the share buyback has resulted in a payment by the Group to the Participating Shareholders of US\$200,000 and a reduction in the liabilities of the Group by USD\$500,000 and CNY2,200,000.

On 27 February 2012, the Company issued 5,875 fully paid ordinary shares for \$0.03 each pursuant to the exercise of options expiring on 31 December 2013.

On 15 March 2012, the Company issued 12,750,000 fully paid ordinary shares for \$0.02 each and 20,000,000 options exercisable at 3 cents each on or before 31 December 2013 at an issue price of \$0.001 each. The issue of these shares and options was approved at the General Meeting of shareholders of the Company held on 17 February 2012.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

### CAPITAL MANAGEMENT

Management controls the capital of the Group comprising the liquid assets held by the Group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues. There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

### TERMS AND CONDITIONS OF CONTRIBUTED EQUITY

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of, and amounts paid up, of shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at any meeting of the Company.

	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 14. RESERVES</b>		
Option premium reserve	105,308	1,550,000
Currency translation reserve	(1,119,713)	(1,471,310)
	<u>(1,014,405)</u>	<u>78,690</u>

### MOVEMENTS IN OPTION PREMIUM RESERVE

At the beginning of the financial year	1,550,000
Option premium for expired options transferred to Issued Capital	(1,550,000)
4,000,000 options issued on 13 March 2012	85,308
20,000,000 options issued on 15 March 2012	20,000
<b>AT THE END OF THE FINANCIAL YEAR</b>	<u><u>105,308</u></u>

### MOVEMENTS IN CURRENCY TRANSLATION RESERVE

At the beginning of the financial year	(1,471,310)
Consolidation adjustment for the year	351,597
<b>AT THE END OF THE FINANCIAL YEAR</b>	<u><u>(1,119,713)</u></u>

The option premium reserve is used to accumulate the fair value of options issued and premiums received on the issue of options.

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

On 8 December 2011, the Company announced a non-renounceable offer to eligible shareholders pursuant to a prospectus dated 8 December 2011, on the basis of one (1) new share (New Shares) for every two (2) shares held by shareholders at an issue price of \$0.02 per Share to raise approximately \$1,086,678 before costs, together with one (1) free attaching option (Attaching Option) for every New Share issued (Rights Issue). The Attaching Options are exercisable at 3 cents each on or before 31 December 2013. Pursuant to the Rights Issue, the Company issued 5,931,616 New Shares and 5,931,616 Attaching Options on 19 January 2012, 35,902,293 New Shares and 35,902,293 Attaching Options on 3 February 2012 and 12,500,000 New Shares and 12,500,000 Attaching Options on 14 February 2012.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

On 13 March 2012, the Company issued 4,000,000 free options exercisable at 3 cents each on or before 31 December 2013 to nominees of the underwriter of the Rights Issue as part of the underwriting fee. The issue of these options was approved at the General Meeting of shareholders of the Company held on 17 February 2012. These options were valued on the date of issue at 0.0213269562900683 cents each using the Cox, Ross, & Rubinstein Binomial methodology and based on a risk free rate 5.00%, an underlying security spot price \$0.038 and an average of calculations using volatility factors of 93.1%, 93.1%, 100% and 93% (each derived from different methodologies for calculating the volatility factor based on share price history).

On 15 March 2012, the Company issued 12,750,000 fully paid ordinary shares for \$0.02 each and 20,000,000 options exercisable at 3 cents each on or before 31 December 2013 at an issue price of \$0.001 each. The issue of these shares and options was approved at the General Meeting of shareholders of the Company held on 17 February 2012.

On 16 April 2012, the Company issued 14,174,063 free options exercisable at 3 cents each on or before 31 December 2013. These options were issued as free attaching options for an issue of 14,174,063 ordinary shares issued on 1 December 2011 for 2 cents per share. The issue of these options was approved at the General Meeting of shareholders of the Company held on 17 February 2012.

	<b>Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 15. PARENT ENTITY</b>		
FINANCIAL INFORMATION ON THE PARENT ENTITY AS AT THE END OF THE FINANCIAL YEAR:		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	1,267,488	1,003,599
Trade and other receivables	20,453	9,693
<b>TOTAL CURRENT ASSETS</b>	1,287,941	1,013,292
<b>NON-CURRENT ASSETS</b>		
Plant and equipment	21,287	23,760
Other financial assets	480,486	60,486
<b>TOTAL NON-CURRENT ASSETS</b>	501,773	84,246
<b>TOTAL ASSETS</b>	1,789,714	1,097,538
<b>CURRENT LIABILITIES</b>		
Trade and other payables	43,429	28,968
Amounts payable to wholly owned controlled entities	6,098,192	—
<b>TOTAL CURRENT LIABILITIES</b>	6,141,621	28,968
<b>TOTAL LIABILITIES</b>	6,141,621	28,968
<b>NET ASSETS</b>	(4,351,907)	1,068,570

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012**


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	<b>Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>EQUITY</b>		
Issued capital	49,575,567	51,691,088
Reserves	105,308	1,550,000
Accumulated losses	(54,032,782)	(52,172,518)
<b>TOTAL EQUITY</b>	<b>(4,351,907)</b>	<b>1,068,570</b>

**FINANCIAL INFORMATION ON THE PARENT ENTITY FOR THE FINANCIAL YEAR:**

Profit/(loss) after related income tax expense	(1,860,265)	(602,659)
Other comprehensive income	—	—
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(1,860,265)</b>	<b>(602,659)</b>

There are no contingent liabilities of the Parent Entity as at the reporting date.

	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 16. CASH FLOW INFORMATION</b>		
<b>RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS AFTER INCOME TAX</b>		
Profit/(loss) after tax	(2,606,910)	(741,048)
<i>Cash flows in loss attributable to non-operating activities</i>		
Exploration expenditure	792,107	903,288
Indonesian First Tranche Petroleum royalty	84,348	72,553
<i>Non-cash flows in loss</i>		
Depreciation of plant and equipment	6,096	13,358
Foreign exchange	113,857	(286,687)
Exploration expenditure written down	1,736,281	1,098,650
Loss on disposal of plant and equipment	—	48,595
<i>Changes in assets and liabilities</i>		
Decrease/(increase) in other debtors and prepayments	832,869	(854,982)
Increase/(decrease) in other creditors and accruals	24,132	(121,057)
<b>NET CASH FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>982,780</b>	<b>132,670</b>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012**


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	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
<i>Cash and cash equivalents at the end of the financial year is shown in the accounts as:</i>		
Cash and cash equivalents	1,274,699	6,596,925
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>	<b>1,274,699</b>	<b>6,596,925</b>

**NON-CASH FINANCING AND INVESTING ACTIVITIES**

There were no non-cash financing and investing activities during the year.

There are no financing facilities in place for the Company.

**NOTE 17. EXPENDITURE COMMITMENTS**
**OPERATING LEASE COMMITMENTS**

Non-Cancellable capital expenditure commitments contracted for but not capitalised in the accounts:

*Payable*

not later than one year	36,576	35,087
later than 1 year but not later than 5 years	30,724	67,788
<b>AGGREGATE EXPENDITURE CONTRACTED FOR AT REPORTING DATE</b>	<b>67,300</b>	<b>102,875</b>

**NOTE 18. AUDITORS' REMUNERATION**

Remuneration of the auditor of the Company for:

Auditing or reviewing the financial report	34,291	38,762
Other services	7,400	15,200

Remuneration of other auditors of subsidiaries for:

Auditing or reviewing the financial report of subsidiaries		—
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	<b>41,691</b>	<b>53,962</b>
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**NOTE 19. KEY MANAGEMENT PERSONNEL**
**REMUNERATION OF KEY MANAGEMENT PERSONNEL**

	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
REMUNERATION OF KEY MANAGEMENT PERSONNEL		
Short term employee benefits	448,253	428,417
Post employment benefits	—	—
Share based payment benefits	—	—
	<b>448,253</b>	<b>428,417</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

### SHARES AND OPTIONS HELD BY KEY MANAGEMENT PERSONNEL

	1 July 2011 or Appointment	Number of Ordinary Shares Issued as Compensation	Net Change Other	30 June 2012 or Resignation
Russell Brimage	54,400	—	22,500,000	22,554,400
Weidong Zhang	—	—	—	—
Simon Reeve	—	—	—	—
Jian Wu	13,045,376	—	—	13,045,376
Jack Toby	—	—	—	—
	13,099,776	—	22,500,000	35,599,776

	1 July 2010 or Appointment	Number of Ordinary Shares Issued as Compensation	Net Change Other	30 June 2011 or Resignation
Jian Wu	13,045,376	—	—	13,045,376
Russell Brimage	54,400	—	—	54,400
Weidong Zhang	—	—	—	—
Jack Toby	—	—	—	—
	13,099,776	—	—	13,099,776

	1 July 2011 or Appointment	Number of Options Issued as Compensation	Net Change Other	30 June 2012 or Resignation
Russell Brimage	4,000,000	—	18,500,000	22,500,000
Weidong Zhang	1,000,000	—	(1,000,000)	—
Simon Reeve	—	—	—	—
Jian Wu	—	—	—	—
Jack Toby	—	—	4,635,000	4,635,000
	5,000,000	—	22,135,000	27,135,000

	1 July 2010 or Appointment	Number of Options Issued as Compensation	Net Change Other	30 June 2011 or Resignation
Jian Wu	—	—	—	—
Russell Brimage	4,000,000	—	—	4,000,000
Weidong Zhang	1,000,000	—	—	1,000,000
Jack Toby	—	—	—	—
	5,000,000	—	—	5,000,000

All options are vested and exercisable.

### NOTE 20. SEGMENT INFORMATION

#### IDENTIFICATION OF REPORTABLE SEGMENTS

The Group has identified its operating segments based on internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

The Group's principal activities are oil and gas exploration, development and production and investment in the resources industry. These activities are managed on a Group structure basis. Operating segments are therefore determined on the same basis. Lion International Investment Limited ("LII") is a separate segment as it is the vehicle through which the Group participates in energy activities in Asia. The revenue of LII is predominantly derived from oil and gas activities.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

### BASIS OF ACCOUNTING FOR PURPOSES OF REPORTING BY OPERATING SEGMENTS

Unless stated otherwise, all amounts reported to the board of directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group.

Segment assets are clearly identifiable on the basis of their nature and physical location.

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Segment liabilities include trade and other payable and certain direct borrowings.

Items of revenue, expense, assets and liabilities are not allocated to operating segments if they are not considered part of the core operations of any segment.

	YEAR TO 30 JUNE 2012			YEAR TO 30 JUNE 2011		
	Lion International Investments Limited and its subsidiaries \$	Other Group Entities \$	Total \$	Lion International Investments Limited and its subsidiaries \$	Other Group Entities \$	Total \$
SEGMENT PERFORMANCE						
External revenue	2,031,192	24,920	2,056,112	1,791,256	149,334	1,940,590
Other external income	—	—	—	129,302	157,385	286,687
<b>TOTAL SEGMENT REVENUE</b>	<b>2,031,192</b>	<b>24,920</b>	<b>2,056,112</b>	<b>1,920,558</b>	<b>306,719</b>	<b>2,227,277</b>
Segment net profit/(loss) before tax	<u>(749,830)</u>	<u>(1,857,080)</u>		<u>(139,250)</u>	<u>(601,798)</u>	
<b>NET PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>			<u>(2,606,910)</u>			<u>(741,048)</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

	30 JUNE 2012			30 JUNE 2011		
	Lion International Investments Limited and its subsidiaries \$	Other Group Entities \$	Total \$	Lion International Investments Limited and its subsidiaries \$	Other Group Entities \$	Total \$
SEGMENT ASSETS						
Segment assets	1,377,469	1,736,439		8,666,601	1,040,916	
<b>TOTAL ASSETS FROM CONTINUING OPERATIONS</b>			<b>3,113,908</b>			<b>9,707,517</b>

	30 JUNE 2012			30 JUNE 2011		
	Lion International Investments Limited and its subsidiaries \$	Other Group Entities \$	Total \$	Lion International Investments Limited and its subsidiaries \$	Other Group Entities \$	Total \$
SEGMENT LIABILITIES						
Segment liabilities	1,037,010	43,429		1,829,555	28,967	
<b>TOTAL LIABILITIES FROM CONTINUING OPERATIONS</b>			<b>1,080,439</b>			<b>1,858,522</b>

### REVENUE BY GEOGRAPHICAL REGION

Revenue attributed to external customers is disclosed below based on the location of the external customers.

	Year to 30 June 2012 \$	Year to 30 June 2011 \$
Australia	24,920	124,938
Asia	2,031,192	1,815,652
USA	—	—
	<b>2,056,112</b>	<b>1,940,590</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

### ASSETS BY GEOGRAPHICAL REGION

The location of assets is disclosed below by the geographical location of the assets.

	30 June 2012 \$	30 June 2011 \$
Australia	1,729,228	1,037,052
Asia	1,377,469	8,666,601
USA	7,211	3,864
	<u>3,113,908</u>	<u>9,707,517</u>

### MAJOR CUSTOMERS

Due to the nature of its current operations, the Group does not provide products and services.

### NOTE 21. CONTROLLED ENTITIES

	% Owned		Book value of shares held		Contribution to consolidated profit/(loss)	
	2012	2011	2012 \$	2011 \$	2012 \$	2011 \$
<i>Parent Entity</i>						
Lion Energy Limited						
<i>Entities controlled by Lion Energy Limited</i>						
Lion International Investment Limited	100%	100%	60,474	60,474	(567,229)	(324,524)
Lion Energy Limited USA, Inc	100%	100%	12	12	(3,306)	(4,317)
<i>Entities controlled by Lion International Investment Limited</i>						
Lion Nanning Petro-Chemical Limited	Nil	100%	—	41,034	(182,601)	185,274
<i>Entities controlled by Lion Energy Limited USA, Inc</i>						
Lion USA LLC	100%	Nil	—	—	—	—
			<u>60,486</u>	<u>101,520</u>	<u>(753,136)</u>	<u>(143,567)</u>

Lion Energy Limited USA, Inc and Lion USA LLC are registered in Delaware in the United States of America. Lion International Investment Limited is registered in the Cayman Islands. Lion Nanning Petro-Chemical Limited is registered in China.

During the year, the Company registered Lion USA LLC in the United States of America. The results of Lion USA LLC have been included in the Consolidated Entity from the date of its registration of 22 June 2012.

During the year, the Company disposed of Lion Nanning Petro-Chemical Limited. The results of this company have been included in the Consolidated Entity to 27 February 2012, the date of its disposal. Lion Nanning Petro-Chemical Limited had cash assets of \$5,742,496 and no other assets and owed \$5,498,531 to Lion International Investment Limited and no other liabilities on the date of its disposal. The disposal of this company formed part of the consideration for a selective buy-back of the Company's shares. As part of the buy-back the debt of \$5,498,531 owed to Lion International Investment Limited was assigned to three vendors of the buy-back shares.

The functional currency of Lion Energy Limited is Australian Dollars (\$), the functional currency of Lion Nanning Petro-Chemical Limited is Yuan Renminbi and the functional currency of all other controlled entities of Lion Energy Limited is United States Dollars (US\$).

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

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### NOTE 22. JOINT VENTURE INTERESTS

The Consolidated Entity has a 2.5% working interest in the exploration and development of the Seram (Non-Bula) Joint Venture in Indonesia.

The carrying value of the Group's interest in these joint venture assets as at 30 June 2012 was \$340,459 and at 30 June 2011 was \$1,186,505.

### NOTE 23. CONTINGENT LIABILITIES

The Company has settled a claim from the solicitors for Tulloch Lodge Limited (In Liquidation) demanding payment of an amount of \$1,481,244.00 plus interest of \$398,855.99 alleged to be due under a loan agreement entered into in January 2003. The matter was settled for \$737,500 which has been paid by the Company.

There has been no other significant change in contingent liabilities since the last annual reporting date.

### NOTE 24. SUPERANNUATION COMMITMENTS

The Company makes contributions to complying superannuation funds based on the requirements of the Australian Superannuation Guarantee Charge or such higher amount as has been agreed with individual employees. There is a legally enforceable obligation on the Company to contribute to the superannuation plan for those contributions that have been agreed with individual employees as part of their conditions of employment.

### NOTE 25. FINANCIAL INSTRUMENTS

#### FINANCIAL RISK MANAGEMENT POLICIES

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from subsidiaries, which arise directly from its operations. The Group's policy is that no trading in financial instruments shall be undertaken. The main purpose of non-derivative financial instruments is to finance group operations. Derivatives are not used by the group and the group does not speculate in the trading of derivative instruments.

#### TREASURY RISK MANAGEMENT

The Board considers the Group's financial risk exposure and treasury management strategies in the context of the Group's operations. The Board's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

#### FINANCIAL RISK EXPOSURES AND MANAGEMENT

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk. The Board reviews each of these risks on an on-going basis.

#### INTEREST RATE RISK

The Company has a policy of minimising its exposure to interest payable on debt. The Group has no debt that requires the payment of interest.

FINANCIAL INSTRUMENTS	TERMS AND CONDITIONS AND INTEREST RATE RISK
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Bank Deposits	Bank deposits are either held at call, subject to notice of withdrawal or subject to maturity after a specified period of time. All cash held is subject to floating interest rate risk.
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Receivables	There are no specific terms and conditions that may affect the amount, timing and certainty of future cash flows as they are all managed on a case by case basis. These are non interest bearing and there is no exposure to interest rate risk.
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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

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### FINANCIAL INSTRUMENTS

#### TERMS AND CONDITIONS AND INTEREST RATE RISK

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Accounts Payable	There are no specific terms and conditions that may affect the amount, timing and certainty of future cash flows as they are all managed on a case by case basis. These are non interest bearing and there is no exposure to interest rate risk.
Equity	Details of equity securities issued and outstanding are disclosed separately in these financial statements. These are non interest bearing and there is no exposure to interest rate risk.

#### FOREIGN CURRENCY RISK

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. The group also exposed to fluctuations in foreign currencies arising from deposits with banks denominated in foreign currencies. The Group does not seek to hedge this exposure.

#### LIQUIDITY RISK

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate funds are available.

#### CREDIT RISK

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There are no material amounts of collateral held as security at 30 June 2012. Credit risk is managed on a group basis and reviewed by the Board. It arises from exposures to customers as well as through deposits with financial institutions. The Board monitors credit risk by actively assessing the quality and liquidity of counter parties, consequently only banks are utilised for deposits and all potential customers are assessed for credit worthiness taking into account their size, market position and financial standing. The counterparties included in trade and other receivables at 30 June 2012 are not rated, however given the amount and nature of these financial instruments, the Board is satisfied that they represent a low credit risk for the Group. There are no significant concentrations of credit risk within the Group.

#### PRICE RISK

The group is exposed to commodity price risk through its Joint Venture Interests. Oil and Gas prices have improved substantially over the last 12 months and the Group does not currently hedge the price it sells oil and gas at.

#### FINANCIAL INSTRUMENT COMPOSITION AND MATURITY ANALYSIS

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

**Consolidated Entity**  
**2012**                      **2011**  
**\$**                              **\$**

TRADE AND OTHER RECEIVABLES ARE EXPECTED TO BE RECEIVED AS FOLLOWS:

Less than 6 months	97,473	1,180,380
6 months to 1 year	—	—
later than 1 year but not later than 5 years	—	—
over 5 years	—	—
	97,473	1,180,380
	97,473	1,180,380

TRADE AND SUNDRY PAYABLES ARE EXPECTED TO BE PAID AS FOLLOWS:

Less than 6 months	485,107	1,374,956
6 months to 1 year	—	—
later than 1 year but not later than 5 years	—	—
over 5 years	595,332	483,566
	1,080,439	1,858,522
	1,080,439	1,858,522

### FAIR VALUES

The aggregate net fair values of the Consolidated Entity's financial assets and financial liabilities, both recognised and unrecognised are as follows:

	CARRYING AMOUNT IN THE FINANCIAL STATEMENTS 2012 \$	AGGREGATE NET FAIR VALUE 2012 \$	CARRYING AMOUNT IN THE FINANCIAL STATEMENTS 2011 \$	AGGREGATE NET FAIR VALUE 2011 \$
<i>Financial Assets</i>				
Cash assets	1,274,699	1,274,699	6,596,925	6,596,925
Receivables	97,473	97,473	1,180,380	1,180,380
<i>Financial Liabilities</i>				
Payables	1,080,439	1,080,439	1,858,522	1,858,522

*The following methods and assumptions are used to determine the net fair value of financial assets and liabilities:*

Cash assets and financial assets are carried at amounts approximating fair value because of their short term nature to maturity. Receivables and payables are carried at amounts approximating fair value. The Group does not carry financial instruments at fair value at 30 June 2012.

Listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.

### SENSITIVITY ANALYSIS

The group has performed a sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012**


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**INTEREST RATE SENSITIVITY ANALYSIS**

At 30 June 2012, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
CHANGE IN PROFIT DUE TO:		
Increase in interest rate by 2%	97,692	132,996
Decrease in interest rate by 2%	(41,880)	(108,050)
CHANGE IN EQUITY DUE TO:		
Increase in interest rate by 2%	97,692	132,996
Decrease in interest rate by 2%	(41,880)	(108,050)

**FOREIGN CURRENCY RISK SENSITIVITY ANALYSIS**

At 30 June 2012, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
CHANGE IN PROFIT DUE TO:		
Improvement in AUD to USD by 5%	(306,002)	(8,619)
Decline in AUD to USD by 5%	276,858	7,804
CHANGE IN EQUITY DUE TO:		
Improvement in AUD to USD by 5%	62,397	359,056
Decline in AUD to USD by 5%	(56,455)	(324,859)

**NOTE 26. RELATED PARTY TRANSACTIONS**

The Company is not controlled by any other entity.

At 30 June 2012, directors and their related entities held directly, indirectly or beneficially 22,554,400 ordinary shares and 22,500,000 options expiring 31 December 2013 and exercisable at 3 cents each in the Company.

At 30 June 2011, directors and their related entities held directly, indirectly or beneficially 13,099,776 ordinary shares and 5,000,000 options expiring 31 August 2011 and exercisable at 35 cents each in the Company.

**NOTE 27. DIVIDENDS**

No dividends have been paid or proposed during the year.



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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012**

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### **NOTE 28. EVENTS SUBSEQUENT TO BALANCE DATE**

On 2 July 2012, the Company announced that KRX had executed an Area of Mutual Interest Agreement (AMI Agreement) with two prominent Indonesian groups to jointly evaluate the onshore areas of Java, Kalimantan and Sumatra for the purposes of forming a consortium to ultimately acquire prospective acreage. KRX had a 35% Participating Interest in the AMI Agreement which participating interest will apply to any application except that it may be adjusted by mutual agreement between the parties.

On 16 August 2012, the Company announced that the LOFIN-1 exploration well on Seram Island in eastern Indonesia had been successfully sidetracked and the LOFIN-1 ST wellbore has reached a depth of 4,168 meters (13,676 feet) measured depth (from rig rotary table). The Company also announced that it had recovered US\$180,000 owed to the Company via a Loan Agreement entered into between an Indonesian company and Lion Energy Limited in May 2005 by the previous Lion board and management. The amount loaned pursuant to this agreement was US\$299,028 which had been completely written off in Lion's accounts some years ago.

There have been no conversions to, calls of or subscriptions for ordinary shares or issues of potential ordinary shares.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

## **Independent Auditor's Report To the Members of Lion Energy Limited**

### **REPORT ON THE FINANCIAL REPORT**

We have audited the accompanying financial report of Lion Energy Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### **DIRECTORS RESPONSIBILITY FOR THE FINANCIAL REPORT**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENCE**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

**AUDITOR'S OPINION**

In our opinion:

- a the financial report of Lion Energy Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

**MATERIAL UNCERTAINTY REGARDING CONTINUATION AS A GOING CONCERN**

Without qualifying our opinion, we draw attention to Note 2 in the financial report which indicates that the consolidated entity incurred a net loss of \$2,606,910 during the year ended 30 June 2012. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

**Report on the remuneration report**

We have audited the remuneration report included in pages 6 to 8 of the directors' report for the year ended 30 June 2012. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**AUDITOR'S OPINION ON THE REMUNERATION REPORT**

In our opinion, the remuneration report of Lion Energy Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



M J Hillgrove  
Partner – Audit & Assurance

Perth, 17 September 2012

**Auditor's Independence Declaration  
To The Directors of Lion Energy Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Lion Energy Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



M J Hillgrove  
Partner – Audit & Assurance

Perth, 17 September 2012

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## ADDITIONAL INFORMATION AS AT 14 SEPTEMBER 2012

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### ANALYSIS OF HOLDINGS OF LISTED SHARES AND OPTIONS IN THE COMPANY

	Ordinary Shares	Options expiring 31 Dec 2013 3 cents
1 — 1,000	610	91
1,001 — 5,000	790	80
5,001 — 10,000	161	13
10,001 — 100,000	198	25
100,001 — and over	69	32
Total number of holders	1,828	241
Holdings of less than a marketable parcel	1,592	

#### REGISTERED OFFICE OF THE COMPANY

Ground Floor  
15 Rheola St  
West Perth  
Western Australia 6005

Tel: +61 (8) 9213 4300  
Fax: +61 (8) 9213 4311

#### STOCK EXCHANGE LISTING

Quotation has been granted for all ordinary shares and all options expiring 31 December 2013 on the Australian Stock Exchange Ltd. The State Office of the Australian Stock Exchange Ltd in Perth, Western Australia has been designated the Home Branch of Lion Energy Limited.

There are no current on-market buy-back arrangements for the Company.

#### VOTING RIGHTS

For all ordinary shares, voting rights are one vote per member on a show of hands and one vote per share in a poll.

#### SHARE REGISTRY

The registers of shares and options of the Company are maintained by:-

Computershare Registry Services Pty Ltd  
Level 2, Reserve Bank Building  
45 St Georges Terrace  
Perth, Western Australia 6000

Tel: +61 (8) 9323 2000  
Fax: +61 (8) 9323 2033

#### COMPANY SECRETARY

The name of the company secretary is Jack Hugh Toby.

#### TAXATION STATUS

Lion Energy Limited is taxed as a public company.

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**ADDITIONAL INFORMATION AS AT 14 SEPTEMBER 2012**


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**TWENTY LARGEST HOLDERS OF ORDINARY SHARES**

	<b>Number of Shares</b>	<b>Percentage of Total</b>
Pouvoir Pty Ltd <Brimage Super Fund A/C>	16,250,000	14.25%
KKSH Holdings Ltd	11,345,000	9.95%
Pouvoir Pty Ltd <Brimage Super Fund A/C>	6,250,000	5.48%
Mr John Jansen + Mrs Dale Lorraine Jansen <JJ Retirement Fund A/C>	5,108,763	4.48%
Mr Robert Francis Davies <R And Y Davies S/F A/C>	4,542,614	3.98%
Jacobs Oil & Gas Ltd	4,250,118	3.73%
Zapac Pty Ltd	3,171,523	2.78%
Ohio Holdings Pty Ltd	3,000,000	2.63%
Mr Kenneth Bull	2,900,591	2.54%
Mr Kyle Stuart Passmore	2,900,591	2.54%
Mr Justin James Hilton Walta	2,900,591	2.54%
Elstree Holdings Pty Ltd <The Dale Investment A/C>	2,800,000	2.46%
Mrs Jirachaya Charnchayasuk	2,556,780	2.24%
Ms Qiuyun Shen	2,500,000	2.19%
Asian Cleveland Ltd	2,340,000	2.05%
Comsec Nominees Pty Limited	2,200,000	1.93%
Small Business Finance Pty Limited	1,832,070	1.61%
Ms Nada Saade	1,620,023	1.42%
Dale Estates Pty Ltd <Dale Superannuation A/C>	1,500,000	1.32%
Jungar Holdings Pty Ltd <The Whyte Super Fund A/C>	1,500,000	1.32%
	<hr/>	<hr/>
	81,468,664	71.44%

**TWENTY LARGEST HOLDERS OF 3 CENT OPTIONS EXPIRING 31 DECEMBER 2013**

	<b>Number of Options</b>	<b>Percentage of Total</b>
Pouvoir Pty Ltd <Brimage Super Fund A/C>	16,250,000	17.57%
KKSH Holdings Ltd	9,995,000	10.81%
Ohio Holdings Pty Ltd	6,260,750	6.77%
Pouvoir Pty Ltd <Brimage Super Fund A/C>	6,250,000	6.76%
Mr Robert Francis Davies <R And Y Davies S/F A/C>	5,848,076	6.32%
Mrs Jirachaya Charnchayasuk	5,290,805	5.72%
Jacobs Oil & Gas Ltd	4,650,118	5.03%
Northgold Pty Ltd <Northgold Super Fund A/C>	4,635,000	5.01%
Mrs Ravikan Garner	4,000,000	4.32%
Mr Paul Charles Garner	3,635,000	3.93%
Mr Kenneth Bull	2,900,591	3.14%
Mr Justin James Hilton Walta	2,900,591	3.14%
Ms Qiuyun Shen	2,500,000	2.70%
Asian Cleveland Ltd	2,340,000	2.53%
Mr Kyle Stuart Passmore	1,810,591	1.96%
Mr John Jansen + Mrs Dale Lorraine Jansen <JJ Retirement Fund A/C>	1,720,874	1.86%
Jungar Holdings Pty Ltd <The Whyte Super Fund A/C>	1,500,000	1.62%
Mr Kyle Stuart Passmore <K&D Passmore Super Fund A/C>	1,090,000	1.18%
Mr James Owen Moses	1,000,000	1.08%
Mr Gary Ian Scarborough + Ms Sommer Elizabeth Davies	1,000,000	1.08%
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	85,577,396	92.53%

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## ADDITIONAL INFORMATION AS AT 14 SEPTEMBER 2012

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### SUBSTANTIAL SHAREHOLDERS

Date Announced	Name	Number of Shares
15-Mar-2012	Russell Brimage	22,554,400
27-Mar-2012	KKSH Holding Ltd	11,345,000

### PRINCIPLES OF GOOD CORPORATE GOVERNANCE AND RECOMMENDATIONS

#### INTRODUCTION

The directors are focussed on fulfilling their responsibilities individually, and as a Board, for the benefit of all the Company's stakeholders. That involves recognition of, and a need to adopt, principles of good corporate governance. The Board supports the guidelines on the "Principles of Good Corporate Governance and Recommendations – 2<sup>nd</sup> Edition" established by the ASX Corporate Governance Council.

Given the size and structure of the Company, the nature of its business activities, the stage of its development and the cost of strict and detailed compliance with all of the recommendations, it has adopted a range of modified systems, procedures and practices which it considers will enable it to meet the principles of good corporate governance.

The Company's practices are mainly consistent with those of the guidelines and where they do not correlate with the recommendations in the guidelines the Company considers that its adopted practices are appropriate to it. At the end of this statement a table is included detailing the recommendations with which the Company does not strictly comply.

The following section addresses the Company's practices in complying with the principles.

#### BOARD CHARTER

The business of the Company is managed under the direction of the Board of Directors. The Board is accountable to shareholders of the Company for the performance of the Company.

The Board has primary responsibility to shareholders for the sustainability and relevance of the Company by guiding and monitoring its business and affairs.

Each Director of the Company will act in good faith in the best interests of the Company and collectively oversee and appraise the strategies, major policies, processes and performance of the company using care and diligence to ensure that Company's long term sustainability is assured.

Directors will not misuse their position on the Board to advance personal interests nor to represent particular constituencies. Directors will not use information available to them as Board members to advance personal interests or agendas.

Directors are required to inform the Board of any conflicts or potential conflicts of interest they may have in relation to particular items of business. Directors must absent themselves from discussion or decisions on those matters.

The Company's Constitution and Australian corporations law specifies the minimum and maximum number of directors of the Company.

The Directors must elect one of their number as Chairman.

#### PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

##### *Role and Responsibilities of the Board*

The Company has established the functions reserved to the Board. The Board is responsible for:

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## **ADDITIONAL INFORMATION AS AT 14 SEPTEMBER 2012**

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- overseeing the Company, including its control and accountability systems;
- appointing and removing the chief executive officer, managing director, or equivalent;
- ratifying the appointment and the removal of senior executives;
- providing input into and final approval of management's development of corporate strategy;
- reviewing, ratifying and monitoring risk management, internal control, codes of conduct and legal compliance;
- monitoring senior executives performance and implementation of strategy;
- ensuring appropriate resources are available to senior executives;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
- approving and monitoring financial and other reporting.

### *Role and Responsibilities of Senior Executives*

The Company has established the functions reserved to senior executives. Those who have the opportunity to materially influence the integrity, strategy and operation of the Company and its financial performance are considered to be senior executives. The functions delegated to senior executives are:

- Managing and administer the day-to-day operations of the Company;
- Making recommendations to the Board on corporate strategy, risk management, internal control, codes of conduct and legal compliance.
- Supervising other staff and represent them to the Board
- Exercising such specific and express powers as are delegated to them by the Board from time to time;

### *Evaluation of the performance of Senior Executives*

The Board monitors the performance of senior executives on an on-going basis and conducts an evaluation of the performance of senior executives as and when the Board considers appropriate. A formal evaluation of the performance of senior executives was not carried out in the financial year ended 30 June 2012.

### *Availability to public*

The matters reserved for the Board, the matters delegated to senior executives and the Board Charter is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

## **PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE**

### *Composition of the Board*

The names of the directors of the Company and their qualifications are: set out in the section headed Directors' Report in the Annual Report for the year ended 30 June 2012.

The mix of skills and diversity for which the Board of directors is looking to achieve in membership of the Board is that required so as to provide the Company with a broad base of industry, business, technical, administrative, financial and corporate skills and experience considered necessary to represent shareholders and fulfil the business objectives of the Company.



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## **ADDITIONAL INFORMATION AS AT 14 SEPTEMBER 2012**

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The recommendations are that a majority of the directors and in particular the chairperson should be independent. An independent director is one who:

- is not a substantial shareholder of the Company or an officer or otherwise associated directly or indirectly with a substantial shareholder of the Company;
- has not within the last 3 years been employed in an executive capacity by the Company or another Group member or been a director after ceasing to hold such employment;
- has not within the last 3 years been a principal of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with such a service provided;
- is not a material supplier or customer of the Company or another Group member, or an officer of, or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or any other Group member other than as a director of the Company; and
- is free from any interest and any business or other relationship which could or could reasonably be perceived to materially interfere with the director's ability to act in the best interests of the Company.

None of the Board members meet these criteria except for Mr Weidong Zhang and Mr Simon Reeve from the date of Mr Reeve's appointment on 22 February 2012. Consequently, the Board has a majority of independent directors subsequent to 22 February 2012. Mr Russell Brimage is the chairman of the Board. The Chairman is not an independent director.

The Chief Executive Officer of the Company is the Executive Chairman, Mr Russell Brimage.

The performance of the Board, its committees (if any) and the individual directors is assessed on an on-going basis by the Chairman of the Board. The performance of the Chairman of the Board is assessed on an on-going basis by the Board as a whole. A formal evaluation of the performance of the Board, or of individual directors, was not carried out in the financial year ended 30 June 2012.

### *Gender Diversity*

There are no women on the Board. The proportion of women in a senior executive position in the Group is 0%. The proportion of women employees in the whole organisation is 20%.

### *Nomination of Other Board Members*

Membership of the Board of directors is reviewed on an on-going basis by the Chairman of the Board to determine if additional core strengths are required to be added to the Board in light of the nature of the Company's businesses and its objectives. The Board does not believe that at this point in the Company's development it is necessary to appoint additional directors. Consequently, the Board has not established a nomination committee.

### *Independent Advice*

Each of the directors is entitled to seek independent advice at the Company's expense to assist them to carry out their responsibilities however prior approval of the Chairman is required which is not unreasonably withheld.

### *Availability to public*

The Board's policy for nomination and appointment of directors is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

## **PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

The Company has established a code of conduct as to the:

- Practices necessary to maintain confidence in the Company's integrity;

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## ADDITIONAL INFORMATION AS AT 14 SEPTEMBER 2012

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- Practices necessary to take into account their legal obligations and the expectations of their stakeholders;
- Responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The terms of the code of conduct are:

Directors, officers, employees and consultants to the Company are required to observe high standards of behaviour and business ethics in conducting business on behalf of the Company and they are required to maintain a reputation of integrity on the part of both the Company and themselves. The Company does not contract with or otherwise engage any person or party where it considers integrity may be compromised.

Directors are required to disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the director or the interests of any other party in so far as it affects the activities of the Company and to act in accordance with the Corporations Act if conflict cannot be removed or if it persists. That involves taking no part in the decision making process or discussions where that conflict does arise.

Each director and senior executive is required to advise the Chairman of the Board of any reports of unethical practises by any director, executive or employee of the Company. The Chairman of the Board will investigate the matter and report back to the Board as a whole.

### *Availability to public*

The code of conduct is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

Directors are required to make disclosure of any trading in securities of the Company.

The Company has a policy for trading in the securities of the Company. The policy is:

### **POLICY FOR TRADING IN THE SECURITIES OF THE COMPANY**

#### DEFINITIONS

#### *Insider Trading:*

'Insider trading' includes the trading of securities or some wider set of financial products (including derivatives and financial products able to be traded on a financial market) while in possession of information that is not generally available and would be likely to have a material effect on their price or value if it were generally available. The prohibition against insider trading extends to applying for, acquiring or disposing of, or entering into an agreement to apply for, acquire or dispose of relevant financial products, or procuring another person to so trade, or communicating that information where trading in the relevant financial products is likely to take place.

The insider trading provisions are found in Part 7.10, Division 3 of the Corporations Act 2001 ("Corporations Act"). Section 677 of the Corporations Act defines material effect on price or value. A reasonable person would be taken to expect information to have a material effect on the price or value of securities if the information would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, or buy or sell, the first mentioned securities.

#### *Company Securities:*

Company Securities means shares, options or performance rights over those shares and other securities convertible into shares, and any financial products of the Company traded on ASX.

#### *Closed Periods:*

Closed Periods means the following periods of time:

- a) From 7 January of each year until the next announcement to the ASX of financial results either in the form of a cashflow report or in the form of profit results; and

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## ADDITIONAL INFORMATION AS AT 14 SEPTEMBER 2012

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- b) From 7 July of each year until the next announcement to the ASX of financial results either in the form of a cashflow report or in the form of profit results; and

*Key Management Personnel:*

Key Management Personnel are defined in the ASX Listing Rules.

*Declaration:*

A declaration may be validly issued in either written or electronic form. Electronic declarations may take the form of an email, fax or any other electronic recordable communication.

*Excluded Trading:*

Excluded trading means trading consistent with any of the following categories:

Transfers of Company's Securities already held into a superannuation fund or other saving scheme in which the restricted person is a beneficiary;

An investment in, or trading in units of, a fund or other scheme (other than a scheme only investing in the securities of the entity) where the assets of the fund or other scheme are invested at the discretion of a third party;

Where a restricted person is a trustee, trading in the Company's Securities of the entity by that trust provided the restricted person is not a beneficiary of the trust and any decision to trade during a closed period is taken by the other trustees or by the investment managers independently of the restricted person;

Undertakings to accept, or the acceptance of, a takeover offer;

Trading under an offer or invitation made to all or most of the security holders, such as, a rights issue, a security purchase plan, a dividend or distribution reinvestment plan and an equal access buy-back, where the plan that determines the timing and structure of the offer has been approved by the board. This includes decisions relating to whether or not to take up the entitlements and the sale of entitlements required to provide for the take up of the balance of entitlements under a renounceable pro rata issue;

A disposal of the Company's Securities that is the result of a secured lender exercising their rights, for example, under a margin lending arrangement, provided that the restricted person obtained the consent of the Chairman or Chief Executive Officer of the Company to enter into agreements that provide lenders with rights over their interests in the entity's securities;

Acquisition of the Company's Securities through an issue of securities by the Company;

The exercise (but not the sale of securities following exercise) of an option or a right, or the conversion of a convertible security;

Trading in accordance with a declaration by the Chairman or Chief Executive Officer which may be given in circumstances that they consider appropriate. The declaration may specify the circumstances and duration of excluded trading; or

Trading under a non-discretionary trading plan for which prior clearance by the Chairman or Chief Executive Officer of the Company has been provided and where:

- a) the restricted person did not enter into the plan or amend the plan during a closed period;
- b) the trading plan does not permit the restricted person to exercise any influence or discretion over how, when, or whether to trade; and
- c) there was no cancellation of the trading plan during a closed period other than in exceptional circumstances.

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## ADDITIONAL INFORMATION AS AT 14 SEPTEMBER 2012

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### TRADING RESTRICTIONS

All Key Management Personnel and all employees of the Company are required to comply with the prohibition against Insider Trading at all times with respect to the Company's Securities. Contravention of the insider trading prohibition may result in significant penalties.

With the introduction of the continuous disclosure regime, public listed companies and other disclosing entities are now required to disclose Price Sensitive Information on an on-going basis (subject to limited exceptions) so that at all times in the year the market can be fully informed and trading can be lawful. As a result the Company has decided not to specify safe periods but rather to designate periods when Trading by Key Management Personnel should not occur.

All Key Management Personnel are required to refrain from trading in the Company's Securities on the ASX during a Closed Period except for Excluded Trading.

All directors of the Company are required to comply with the Corporations Act and the ASX Listing Rules with regard to disclosure of their interests in the Company's Securities on their appointment as a director, on any change in their interests in the Company's Securities and on resignation as a director.

#### *Availability to public*

The policy for trading in the securities of the Company is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

### PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

No audit committee has been established. The two executive directors play an active role in monitoring the daily affairs of the Company. As a result of the scale of operations it has not been considered necessary to form sub-committees.

Each Board member has access to the external auditors and the auditor has access to each Board member.

In the event of the resignation of external auditors, the Board will appoint a new external auditor which is subsequently ratified by shareholders in General Meeting. In all other cases an external auditor is nominated by a shareholder of the Company and is appointed by shareholders in General Meeting. An external auditor can be removed by shareholders in General Meeting. The Board does not have a policy for the rotation of external audit engagement partners.

#### *Availability to public*

The above policies and procedures are included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

### PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Company has established a policy to ensure compliance with ASX Listing Rule disclosure and accountability at senior executive level for that compliance. The terms of the policy are:

All directors, executives and staff are required to abide by all legal requirements, the Listing Rules of the Australian Stock Exchange and the highest standards of ethical conduct. This includes compliance with the continuous disclosure requirements of the listing rules.

The Company Secretary is the person responsible for overseeing and co-ordinating disclosure of information to ASX as well as communicating with the ASX.

#### *Availability to public*

The above policy is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

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## ADDITIONAL INFORMATION AS AT 14 SEPTEMBER 2012

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### PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

The Company has a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at its Annual General Meetings. The terms of the communications policy are:

The Board seeks to inform shareholders of all major developments affecting the Company by:

- preparing half yearly and yearly financial reports and announcing these reports to the ASX;
- preparing quarterly cash flow reports and reports as to activities and announcing these reports to the ASX;
- making announcement in accordance with the listing rules and the continuous disclosure obligations;
- maintaining the Company's website and hosting all of the above on the Company's website;
- annually, and more regularly if required, holding a general meeting of shareholders and forwarding to them the notice of meeting and proxy form; and
- voluntarily releasing other information which it believes is in the interest of shareholders.

The Annual General Meeting enables shareholders to receive the reports and participate in the meeting by attendance or by written communication. The Board seeks to notify all shareholders so they can be fully informed annually for the voting on the appointment of directors and so as to enable them to have discussion at the Annual General Meeting with the directors and/or the auditor of the Company who is invited to the Annual General Meeting. The Annual General Meeting is held each year at a convenient time and place.

#### *Availability to public*

The above policy is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

### PRINCIPLE 7: RECOGNISE AND MANAGING RISK

The Board is conscious of the need to continually maintain systems of risk management and controls to manage all of the assets and affairs of the Company. The Company has established a policy for the oversight of material business risks and the management of material business risks. Risk management is a process of continuous improvement that is integrated into existing practices or business processes. The terms of these risk management policies are:

- Liaise with internal and external stakeholders as appropriate at each stage of the risk management process and concerning the process as a whole.
- Define the basic parameters within which risks must be managed and set the scope for the rest of the risk management process.
- Identify the risks to be managed.
- Identify and evaluate existing controls. Determine consequences and likelihood and hence the level of risk. This analysis should consider the range of potential consequences and how these could occur.
- Compare estimated levels of risk against pre-established criteria (see risk matrix in Risk Management Guide) and consider the balance between potential benefits and adverse outcomes. This enables decisions to be made about the extent and nature of treatments required and about priorities.
- Develop and implement specific cost-effective strategies and action plans for increasing potential benefits and reducing potential costs. Allocate responsibilities to those best placed to address the risk and agree on target date for action.

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## **ADDITIONAL INFORMATION AS AT 14 SEPTEMBER 2012**

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- The Chairman and Chief Executive Officer are responsible for the implementation and maintenance of sound risk management. In carrying out this responsibility, senior managers review the adequacy of internal controls to ensure that they are operating effectively and are appropriate for achieving corporate goals and objectives.
- The Board is responsible for oversight and for providing corporate assurance on the adequacy of risk management procedures.
- Managers at all levels are to create an environment where managing risk forms the basis of all activities.

The risk management includes asset risk, operational risk, personnel health and safety risk, currency fluctuation risk, amongst others. The Company identifies and manages those risks on a case by case and overall corporate basis.

The Board has required management to design and implement a risk management and internal control system to manage the Company's material business risks and has required management to report to it on whether those risks are being managed effectively. The Chief Executive has reported to the board as to effectiveness of the Company's management of its material business risks.

The Board has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration under section 295A of the Corporations Act is founded on an appropriate system of risk management and internal control suitable for a small company, which is operating effectively in all material respects in relation to financial reporting risks.

### *Availability to public*

The above policies are included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

## **PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY**

There is no formal remuneration committee. The functions that would have been carried out by a remuneration committee are performed as follows:

- The remuneration of executive directors and senior executives is determined by the Board as a whole.
- A maximum amount of remuneration for non-executive directors is fixed by shareholders in general meeting and can be varied in that same manner. The Board as a whole determines the remuneration of each non-executive director. In determining the allocation of remuneration to each non-executive director, the Board takes account of the time demands made on the directors together with such factors as fees paid to other corporate directors and to the responsibilities undertaken by them.
- When the Board as a whole considers the remuneration of a particular director, that director will take no part in the decision making process or discussions.
- Each member of the Board has committed to spending sufficient time to enable them to carry out their duties as a director of the Company. One third of the directors retires annually in accordance with the Constitution and is free to seek re-election by shareholders.

There are no schemes for retirement benefits other than superannuation for non-executive directors. There is no policy on prohibiting transactions in associated products which limit the economic risk to directors and executives of participating in unvested entitlements under an equity based remuneration scheme. The Company does not currently have an unvested equity based remuneration scheme.

### *Availability to public*

The above policy is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

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**TABLE OF DEPARTURES AND EXPLANATIONS (FROM THE RECOMMENDATIONS OF THE ASX CORPORATE GOVERNANCE COUNCIL)**

“Recommendation” Ref (“Principle No” Ref followed by Recommendation Ref)	Departure	Explanation
2.1 and 2.2	The Board does not have a majority of independent directors. The Chairman is not an independent director.	Given the nature and size of the Company, its business interests and the stage of development, the Board is of the view that there is an adequate and broad mix of skills required and that given their experience each of the directors are aware of and capable of acting in an independent manner and in the best interests of the shareholders.
2.3	The roles of Chairman and Chief Executive Officer are exercised by the same individual.	Given the nature and size of the Company, its business interests and the stage of development, the Board is of the view that the combined roles of Chairman and Chief Executive Officer are appropriate in the circumstances.
2.4	A separate Nomination Committee has not been formed.	The Board comprises three members each of who have valuable contributions to make in fulfilling the role of a nomination committee member. A director will excuse himself where there is a personal interest or conflict.
3.2 and 3.3	No formal diversity policy has been established.	Given the nature and size of the Company, its business interests and the stage of development, the Board is of the view that a diversity policy is not in the best interests of the Company at this time.
4.1, 4.2 and 4.3	No formal audit committee has been established or formal charter drawn.	Given the size and nature of the Company, its business interests and the ongoing level of involvement of all directors it is not considered necessary that a formal audit committee be established or a charter be drawn.
8.1 and 8.2	No formal remuneration committee has been established.	Given the size and nature of the Company, its business interests and the ongoing level of involvement of all directors it is not considered necessary to establish a remuneration committee.